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JUN 15 5 29 PM '71

AMERICAN EMBASSY
BRASILIA, BRAZIL

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"protectionist tendencies" in the U.S. Congress. He emphasized that if such tendencies result in stiffer trade barriers, the developing nations such as Brazil would suffer the most and could be expected to defend themselves.

Another piece of evidence of increasing emphasis on assertive independence in foreign policy formulation was the appointment of João Augusto ARAUJO CASTRO as Brazilian Ambassador in Washington. When he presented his credentials on May 18, Araujo Castro took the opportunity to stress the theme that there were as yet many bilateral problems to be solved, notwithstanding the recent disappearance of the soluble coffee and textile problems. This part of his speech was given wide press coverage here. Castro, a former Foreign Minister under Coulart, is an advocate of a nationalistically oriented foreign policy.

There were also indications that Brazil was considering making an antarctic territorial claim founded on the sector principle. Such an action would bring Brazil into direct confrontation with Argentina and Great Britain and indirectly with all signatory powers of the 1959 Antarctica Treaty, including the U.S.

The issue on which Brazil presently assumes the most assertive posture, and the one with the greatest potential for seriously impairing the US-Brazil bilateral relationship, is its implementation of its 200 mile territorial sea claim. As the June 1 date for enforcement of the decree approached, bringing with it the possibility of a boat seizure, Brazil steadfastly maintained its position. With France soliciting negotiations as provided for in the decree law, and with Trinidad Tobago ready to follow suit, it must appear to the GOB that their assertiveness in this particular issue will pay off.

2. Regime Criticized in Congress

During the third week of May, two members of the opposition MDB party, deputies Francisco PINTO (Bahia) and Alencar FURTADO (Parana), delivered speeches in the Congress in which they strongly attacked the military and the executive branch, including derogatory references to both the armed forces and to

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President Medici (Rio 3623). The tone and the content of the speeches aroused grave concern in some quarters that they might stimulate retaliation against the two individuals or the Congress.

There is some question as to the motivation behind these speeches, for while both deputies spoke in the name of the MDB party, there are indications that their speeches has not been cleared in advance and that the party leadership did not endorse their actions. It is rumored that Francisco Pinto's speech may well have been drafted by a group of highly nationalistic individuals including cassated Army Colonel BOAVENTURA CAVALCANTI in an effort to appeal to similarly inclined military and civilian elements. In some circles the speeches were viewed as still further confirmation of the irresponsibility of Brazilian politicians, justifying the need for such measures as IA-5.

The government has indicated its concern but has not so far acted to punish the offenders. However, if these speeches are harbingers of future attacks by opposition militants, then an appropriate response will probably be considered.

3. Possible Change in Policy Towards Treatment of Terrorist Suspects in First Army Area

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DAO sources indicate that the temporary commander of the First Army (Rio Region), General Sylvio Frota, had taken steps to lessen Army involvement in the torture of captured terrorist suspects. The joint service Operations Center for Internal Defense (CODI) has de-emphasized operational involvement in favor of its coordinating role between various security services. The interrogation facilities located in the First Army Police Battalion in the Tijuca section of Rio de Janeiro was closed. Prisoners have been transferred from Army to Air Force control. This disengagement of the Army from torture practices coincided with the transfer of key First Army personnel which normally occurs with a change in command. It is not known if the First Army's new policy is reflection of General Frota's personal views or if he is implementing orders from higher authority.

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4. Stock Market Euphoria Continues

The frenetic speculative advance of the Rio Stock Market continued throughout the month. Almost in total disregard of impartial observers' predictions that "it can't go up forever, every market eventually has to readjust" and that the bolsa would plateau or drop sharply if the investors' present euphoric confidence were to wane, each week saw spectacular gains (in the neighborhood of 10-15% per week). Fittingly, the last day of the month saw a new one-day record advance, with the overall value of outstanding shares on the Rio exchange going up 4.3%.

Stories of fortunes made overnight have assured the stock market preeminence over all competitors as the number one topic of discussion on all social occasions. The desire of investors to beg, borrow or steal new capital to buy into the market has produced fall-out in other sectors of the economy. For the first time in several years the Rio housing market has an excess of houses and apartments for sale, as their owners try to convert their assets into cash. The Embassy only realized the extent of this when several officers had their living quarters sold out from under them. Similarly the craze of six months ago, the national football lottery, took a beating as the two cruzeiro bets were accumulated for even wilder action. As always, if the bolsa were to fall, it would be the little fellow who would suffer the most. There are reports that many junior and middle level military officers are putting themselves deeply in debt to get a piece of the action. The same holds in other sectors. A serious market setback, or even a leveling off to zero growth, would obviously have serious implications for the GOB.

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Enclosure No. 1

Chronology of Significant Political Events During the Month of May 1971

April 26 - The Brazilian Lawyers' Association sent a message to President Medici pleading for the restoration of habeas corpus, efficient functioning of the Human Rights Council, and the abolition of the death penalty.

April 29 - The Brazilian Press Association pleads for a general amnesty for all Brazilians, freedom of the press, the effective functioning of the Human Rights Council, and condemns all acts of violence and terrorism.

April 30 - General Silvio Frota assumed command of the First Army, replacing General Sisenio Sarmento.

May 1 - (Labor Day) - President Medici addressed the Nation, highlighting the benefits brought by the Revolution to Brazilian workers.

May 3 - The Brazilian Foreign Office receives a note from the Government of France expressing interest in negotiating a fishing agreement with Brazil.

May 3 - Foreign Minister Gibson Barbosa arrives in Paraguay for a three-day official visit.

May 12 - Minister of Transportation, Mario Andreazza, appears before Congress to report on problems related to the construction of the Rio-Niterói bridge.

May 17 - The Foreign Minister of Venezuela, Aristides Calvani, arrives in Brazil for a three-day official visit.

May 17 - General Nilo Canepa da Silva takes office as Director-General of the Federal Police, replacing General Walter Pires.

May 22 - The Ministry of Labor reports that only 23 of Brazil's 5912 labor unions are still under intervention "for reasons of corruption."

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Enclosure No. 1

May 26 - The Supreme Court refuses to grant habeas corpus to 17 Sao Paulo policemen accused of belonging to the infamous "Death Squad".

May 27 - The Minister of the Army, Orlando Geisel, announces that a 5th Army Command (Amazon Region) will be created soon.

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